RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Jan. 17, 1996 **LETTER 1191**

THE PICTURE: Greetings and salutations in **1996.** Get ready, because we're marching into the brave new world of micro-dividends and mighty hopes. (Yield on the S&P Industrial Average last week was down to 1.97%, can you believe it!) Question: do corporate dividends still have any significance? You have to wonder.

But wait there are a few of us who still believe that yields have meaning. Following are comments from the latest report by *Investment Quality Trends* (situated right here in sunny La Jolla): *"The price of the D-J Industrial Average now represents less intrinsic value than it has in the past 100 years. The dividend yield recently declined to 2.3% -- the lowest yield in the entire history of the stock market. It is lower than the yields seen at the tops of 1929, 1966, 1968, 1970, 1973, 1987 and 1990. Some investors have tried to dismiss this ominous sign. It can not be done. To get a reasonable return is the primary reason why investors risk their capital in any market. A so-called investment which does not produce a return on capital is a speculation. Dividends turn the stock market from a gambling casino into an investment arena."* [*IQ Trends*, (619) 459-3818.]

In the meantime, a *paradoxical division* exists. The **division** is between the stock action of the big US corporations which are currently generating more profits than at any other time in US history and the hundreds of thousands of workers (both blue and white collar) who have either been "retired" or "pink-slipped" out of their jobs.

Mull over the following: how can a given corporation which operated in 1993 with 12,000 employees be producing more today with only 7,000 employees? You have to ask, "What were the 5,000 workers who were fired doing?" A second question: "If US corporations can downsize and then function even more efficiently, how many employees could the US government 'retire' and still function?" My guess -- half of all government employees could be given their walking papers and the nation would do just fine. But, of course, that will never happen, unless, of course, the US finally hits the brick wall of economic (debt) reality.

THE MARKET: Last week the "tech" stocks made a (shocking) move towards *reality.* That meant major declines for the group, and the tech weakness soon rubbed off on the rest of the market. First, the Transports broke well below their December decline low of **1952.78.** Then, on January 10, the Industrials confirmed with a vengeance, smashing below their own December low of **5059.32.**

The very obvious reason for the cave-in was the stalemate on the budget. I emphasize the word "obvious," but as veteran subscribers know, the obvious all too often represents wrong-thinking when it comes to Wall Street and the stock market.

So the question I ask myself is this: "Is the budget stand-off the real reason for the slump in the stock market and the swoon in the bond market -- or is there something else in the wind? In other words, are Washington's shenanigans merely a cover-up for a stock market that wants to go down anyway?"

My own inclination is to take the market at face value. The fact is that the Transports turned weak in early December, well before the budget mess. The second fact is that the Dow confirmed Transport weakness when it plunged below its low of 5059.32.

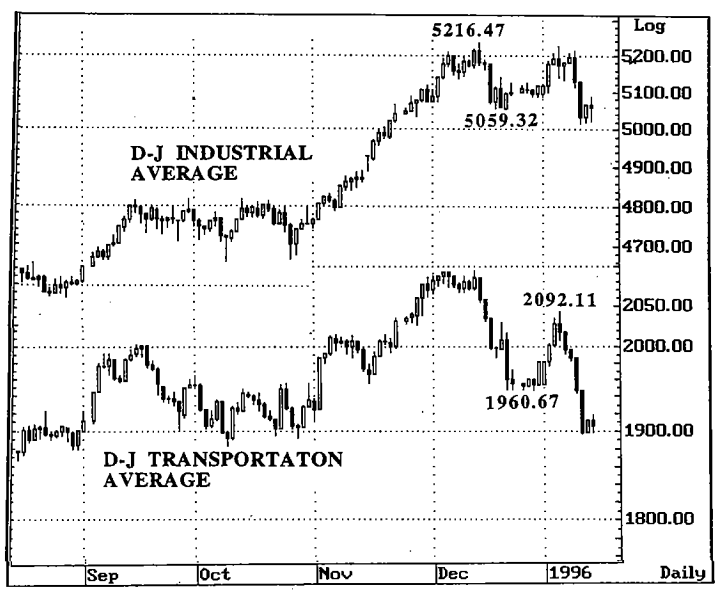
Jan. 5 DJIA 5181.43; PTI 4412; A-D Ratio -1.42
Jan. 12 DJIA 5061.12; PTI 4409; A-D Ratio -1.86
Dow Yield: 2.33%; Dow Price/Earnings: 15.4
Dow 200-day MA: 4691; Dow 30-day MA: 5137
Dow Times Book Value: 3.87; PTI 89-day MA: 4331
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 387.81; Gold-PTI: 647

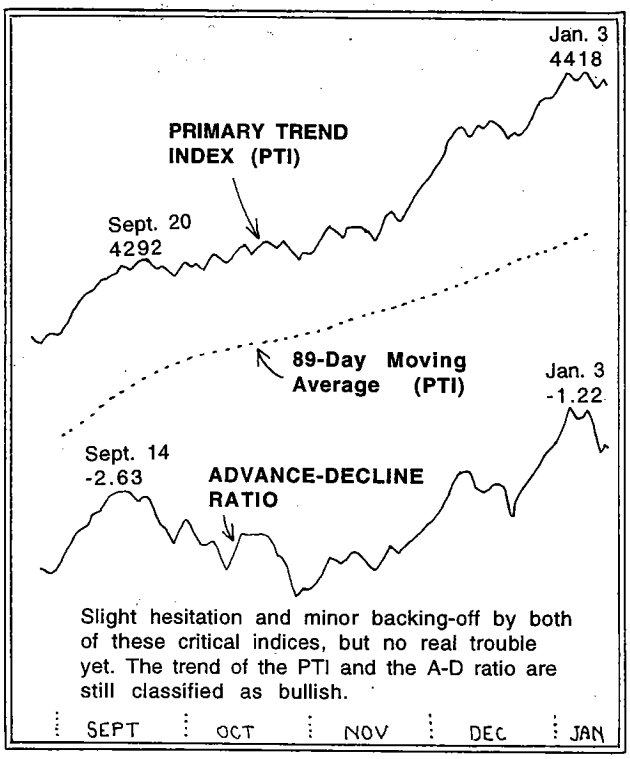
The 5059.32 level was the December low, and *in the past, when the December low is violated during the first quarter of the new year* (particularly in January) it bodes ill for both the market and the economy -- usually for the rest of the year.

At any rate, for the first time since late-1994 we can say that the secondary trend of the stock market is bearish. Is this merely a secondary reaction -- or could it be the start of a primary bear market? At this point, unfortunately, there is absolutely no way of knowing.

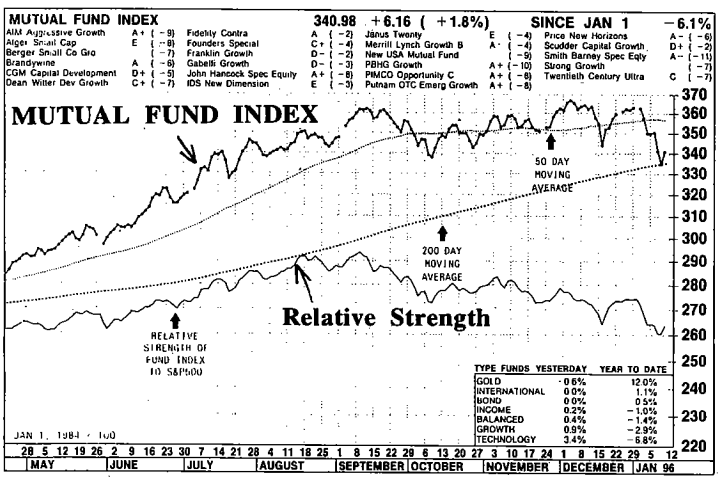
Following is a short list of things that have bothered me about this market: (1) The stock market has been, and is, flagrantly overvalued. It features the lowest yields in history. (2) We've seem massive public participation in the market -- largely via the ever-multiplying mutual funds. (3) It has been five years since we have had anything resembling an important (over 10%) correction in the Dow. (4) It has been 12 years since we have had a Dow closing below a preceding year's closing. (5) We've seen intense, "new-era" type speculation in the stock market, most recently in the "Internet group." (6) The general feeling (sentiment) has been that a primary bear market or even a severe reaction is "out of the question, particularly in an election year."

Of course, there is always the possibility that the market simply panicked at the thought of "no budget agreement until perhaps after the election." If the decline is simply an emotional reaction to news events, then we can, in time, look for a return of the bull. In that case, we have two definite upside objectives -- they are the bull market highs of **5216.47** for Industrials and **2092.11** for the Transports. If BOTH Averages can better those peaks, the market will have provided us with another in a long series of "all-clear" signals.

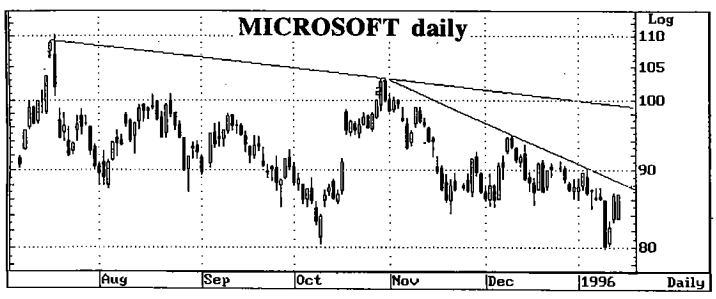




Again, I direct readers' attentions to "where the money is," and one place where it is (to the tune of two trillion dollars) is with the mutual funds. Here we see the *Investor's Business Daily* Mutual Fund Index (20 growth equity funds) topping out in September. Then, last week, on January 10, the Mutual Fund Index broke below its September low. This is not a pleasant sight. It means that the majority of mutual funds purchased since last September are now "under water." Note also that the relative strength line for the funds topped out in September, which means that since September the funds have consistently lagged the S&P.


MUTUAL FUND INDEX
340.98 +6.16 (+1.8%)
SINCE JAN 1 -6.1%
MUTUAL FUND INDEX
50 DAY MOVING AVERAGE
200 DAY MOVING AVERAGE
Relative Strength
RELATIVE STRENGTH OF FUND INDEX TO S&P500
TYPE FUNDS YESTERDAY YEAR TO DATE
GOLD 0.6% 12.0%
INTERNATIONAL 0.0% 1.1%
BOND 0.0% 0.5%
INCOME 0.2% -1.0%
BALANCED 0.4% -1.4%
GROWTH 0.5% -2.9%
TECHNOLOGY 3.4% -6.8%
MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER JAN 96

I also include here a chart of Microsoft. Bill Gates and his company have been Wall Street's version of a high-tech folk hero, and I've long considered MSFT to be one of the real bellwethers of this market. As you can see, MSFT has now lost about 25% of its peak



value, and at this writing the stock looks as though it has topped out for the duration.

In closing this section, I ask subscribers to pay particular attention to the "Surprises" section of this Letter. The year 1996 is going to be another year of surprises. Count on it (for latest thoughts on the market, see Late Notes on page 6).

SUPER-OPTIMISM: *Market Trim Tabs* [(707) 525-1001] notes that "inflow into domestic equity funds set another new record for the second straight week . . . the humungous $5.17 billion estimated weekly flow translates to a monthly rate of over $21 billion. That flow is more than twice the new money received in the comparable 1994-5 yearend fortnight." **Russell Comment:** The public must be mortgaging their homes to buy mutual funds. Actually, some people have been buying funds on margin. The word is out -- trees do grow to the sky.

CURRENCIES: Today, all paper currencies fluctuate against each other, and all are valued against each other. There exists no immutable monetary anchor such as gold against which any currency can be measured. The current "anchor" is obviously the D-mark -- the world's powerhouse currency. But what happens if faith in the D-mark fades? (Gold anyone?)

DERIVATIVES: In reading over the latest statement from the nation's largest mutual fund, the giant Megallan Fund, I was more than a little surprised to learn that its single LARGEST position was in "Dec. 1995 S&P 500 futures." Of course we don't know whether Megallan was in puts, calls or futures, but I suspect they were hedged on the downside. And yes, the pros do like derivatives.

INVESTMENT POSITION: The bull remains in the box. And as you can see, he's developed a nervous tic, actually more of an overall nervous quiver. There's no proof at this writing that this is a bear market, but costly losses can appear even in secondary reactions. From the standpoint of history, it's ominous that the Dow violated its December low of **5059.32.**

I've been advocating extreme caution towards this market for quite some time. Up to now, my cautious warnings have sounded a lot like that well-known cry of "Wolf, Wolf!" Have I cried "Wolf" once too often? Time will tell (as it always does).

For those who follow the investment strategy of buying only the top five or 10 yielding Dow stocks and making their changes only once a year, here are the top yielders of the 30 Dow stocks at this time: Philip Morris with a yield of 4.31%; Texaco -- 4.06%; J.P. Morgan -- 4.04%; Chevron -- 3.83%; Exxon -- 3.65%; DuPont -- 3.01%; Minn. Mining -- 2.82%; Int. Paper -- 2.77%; Gen. Electric -- 2.54%; GM -- 2.38%. Incidentally, a policy of starting each year by buying the 10 highest yielding Dow stocks and making changes once a year has returned 17% a year vs. 11% for the Dow.

My latest advice: you've probably guessed it -- caution, caution, caution.

SURPRISES: Towards the end of '94 I stated that I thought the year 1995 would be "a year of surprises." Of course, every year has its quota of surprises, but I meant that '95 would be a year for *major* surprises.

The big surprise of '95 is easy to identify. It was the phenomenal rise of the stock market. Towards the end of '94 many were doubtful as to whether the Dow could even climb above 4,000. The stock market had tried twice in '94 to better the 4,000 level, first in February (Dow halted at 3978.36) and again in September (Dow stopped at 3953.88). Both attacks ended in failure. The year '94 finished on a weak note, and thus the hoped-for climb "above 4,000" seemed a lost cause. Furthermore, breadth had been abysmal during almost all of '94, and this more than anything else

caused investors to turn increasingly pessimistic. The depressing '94 situation set up the conditions for what was least expected in 1995 -- a massive stock market rise.

Thus, Wall Street lived up to its reputation, and the event that was least expected -- occurred. So much for 1995, now what of 1996? The **Russell opinion** -- 1996 will be another year of *exceptional* surprises -- with emphasis on the word exceptional.

Of course, the single biggest surprise in '96 would be the emergence of a **recession and a severe correction or even a primary bear market.** A few of us old-timers still remember that Wall Street is a two-way street. Right now almost every developed nation is overspending, producing large deficits -- but at the same time attempting to cut back on their deficits. This is basically deflationary and it's basically bullish for bonds. Personally, I believe the odds for recession in '96 are at least 50/50 and maybe higher. If the D-J Industrial Average breaks below 5059.32 I would increase the odds of recession to 75%.

I think there could be a real shocker on the political front, something like Dole backing out of the race (illness?) or Clinton running into real (I mean MAJOR) trouble -- Bosnia, Whitewater, a new cover-up scandal, a new act of stupidity.

Second possible political shocker: Steve Forbes, Jr. picks up an increasingly strong and verbal following, while Dole loses his following. Forbes astounds the experts by becoming the Republican candidate. Or try this -- Dole picks Forbes as VP. I base this on the fact that Forbes has almost unlimited money, he is the only candidate talking real sense, and he is rapidly learning the political ropes. Also, he is the only candidate who is outside the Washington loop. Finally, Forbes is running on the flat tax, and I think Americans are smart enough to realize that the flat tax would be a huge boon to the nation. They also realize that Dole is too much of a hack compromiser, too much of an old-time politician to run on the flat tax ticket. I've said all along that the ONE THING every American agrees on is that the current tax system is an abomination. The flat tax (or a consumption tax) should be the FOREMOST item on the 1996 Republican platform (and Forbes recognizes this).

Forbes, Dole tie in Arizona GOP poll

PHOENIX — Political newcomer Steve Forbes and Sen. Bob Dole are statistically tied for first place among Arizona Republicans while Sen. Phil Gramm trails a distant third in the race for the presidential nomination, according to a poll released yesterday.

I'm watching Japan's Nikkei stock average, and you'll note that it has bounced back from its low of 14,000 to its current price above 20,000. The old '89 high was almost 40,000. A halfway bounce back from the bear market low would take the Nikkei to 24,000. A surprise would be a strong recovery in Japan. Japan seems to be a few years ahead of the US in the cycle. Starting in the '50s the Nikkei led the Dow on the uprise for decades. Then the Nikkei topped out in '89, and a bear market took the Nikkei down from 1989 to 1994, even while the Dow was pushing higher. The Nikkei turned up in '95. Could the Nikkei go into a bull market even while the Dow was topping out? Note that the yen has recently declined strongly against the dollar, making Japanese exports much more attractive. The surprise -- a strong Japanese stock market, and a weak US stock market.

Is a surprise coming from China with particular reference to Hong Kong? In a recent poll, 40% of Hong Kong's youth said they would leave Hong Kong if they could. The Chinese are sending ominous signals to both Hong Kong and Taiwan, and things could turn from unpleasant to very nasty in this area. If so, if the Chinese turn openly hostile, than all Asian stocks could suffer (as could their currencies).

Then there's Saudi Arabia and the Mideast. There's potential trouble in Saudi Arabia with its large collection of kings and princes possessing the bulk of the money, while the populace is relegated to the middle to lower classes. Then there's the specter of rising Islamic militant power. The Mideast, as usual, presents the picture of a time bomb. But there's a problem -- nobody knows the timing.

The possibility of the US actually producing something approximating a balanced budget suggests the possibility of a stronger dollar. That the dollar is undervalued also suggests the possibility of a stronger dollar. Friends of mine coming back from Europe tell me that prices there are high, high, high. One friend just back from Venice is still in shock. Desserts in good restaurants at $30. Breakfasts at $40 and up. Are they kidding. Why? Where does Europe get off with such ridiculous prices? European currencies are sky-high compared with the dollar. European (and Japanese) tourists come here and they think they're in a candy store. They can't believe the "bargain" prices. All this theoretically sets the foundation for a major rise in the dollar vs. the European currencies and the yen. **But wait** -- everyone I talk seems to expect a strong dollar. **The contrary view -- the dollar fools the experts and continues weak.** Bolstering this possibility is the fact that "the commercials" are heavily long the currencies. (The commercials are the BIG users, and they tend to be right much more often than wrong.)

Final surprise: a GLOBAL RECESSION. Listen, it's already happening in Europe and Japan. Germany, the "engine" of Europe is showing zero growth along with 9.9% unemployment, France has 10% unemployment, and except for Denmark, which is a huge oil exporter, I don't know of a single strong European economy. Of course, if that's true, at some point there's got to be a worldwide lowering of interest rates. Even the tough Bundesbank would be willing to bring German rates down -- as long as the D-mark remained strong.

NOTES & QUOTES: Challenging Precedents: It looks to be one hell of an election. Consider the following: (1) Franklin Roosevelt was the last Democrat to win a second term. (2) Clinton is attempting something no Democrat has ever done before. No Dem has ever seen the opposition win both chambers of Congress in a midterm election -- then come back and won a second term for himself. (3) As for Dole, never before has the electorate chosen a president who was a generation older than the incumbent president (Dole is 23 years older than Clinton). If elected, Dole would have the biggest age gap over his opponent in the history of American elections. (4) As things now stand, Clinton is the first Democratic president since Roosevelt to escape a serious challenge for renomination. (5) Time and time again, the taller of the two leading presidential challengers wins the election. Clinton is taller than Dole. This may not be as strange as it seems: in a recent poll American women, when asked what height their "ideal man," should be -- voted overwhelmingly for "six feet two."

* *

Almost every developed nation from Japan to France to the US is suffering from the same disease -- *big government deficits.* Last week, in a biting editorial, London's *Financial Times* addressed the problem. The *Times* was referring to the ratio of government debt to Gross Domestic Product (GDP): *"These fiscal difficulties, which began in the 1980s, will not go away. The adverse ratios occurred at levels that individual governments were unable, or unwilling, to cover by taxation. This was so largely because in each country, if at different levels, voters had reached the limits of tolerable taxation. The resulting fiscal deficits, compounded at strongly positive real interest rates, increased the ratio of gross public debt to GDP, from 41% in 1980 to 72% in 1995. Unfunded pension promises ensure there is worse to come almost everywhere.*

"Government will be punished if they inflate their way out of their quandary; they will not be permitted to tax their way out; and their economies will probably not grow out of it either. What is left is just to whittle away unceasingly at the promises made in an earlier, happier era. No wonder politicians are so unpopular!"

Russell Comment: That's the sad story -- it's worldwide, and it's very *deflationary.* The above are facts that Clinton seems incapable of, or unwilling to, understand. Consequently, Clinton, for politician reasons, clings to the out-of-date thinking of the '50s and '60s. The freshmen Congressional Republicans do understand the debt-to-GDP problem, and they want to do something about it. Which is really what the current struggle in Washington is all about. Dole is the Republican party's "great compromiser." He too understands the deficit story, but doesn't think that solving it will

get him to the presidency. He's right -- it won't get him to the presidency. But he might get to the White House if he picks as his VP a new, enlightened Republican with ideas like Steve Forbes.

* *

NAFTA: Many months ago Clinton stated: "I believe that the peso would become stronger if NAFTA passes, because it would strengthen the Mexican economy." But that's not exactly what happened. Here's what did happen. The peso's value was cut in half in 1995. Mexican purchasing power was devastated and so was the Mexican consumer's appetite for US goods. Exports to Mexico collapsed, and the US trade deficit with Mexico surged to nearly $15 billion. The predicted 200,000 US export-generated jobs never materialized under NAFTA. Furthermore, in only a year two million Mexican jobs were lost, the Mexican economy has shrunk by 7%, and their banking system is in ruins. Faced with higher taxes, more regulations and trade barriers, more Mexicans than ever are crossing the border into the US. And Carlos Salinas, the former leader who negotiated NAFTA for the Mexicans, has fled the country amid reports of money laundering, political assassinations and drug-related scandals. Clinton warned that "NAFTA's defeat would shock the Mexican economy, depress wages and living standards and reduce Mexico's capacity to buy US goods." Yeah right. And now Clinton is playing the same game with the US budget, claiming that cutting a bit out of Medicaid will literally destroy the US medical system. Yeah, right again. Has any US president ever played a more cynical game?

NAFTA Fallout Irks Workers Across America

By James L. Tyson
Staff writer of The Christian Science Monitor

YPSILANTI, MICH.

FROM where Al Cruickshank stands – assembling brakes at Motor Wheel Corp. in Ypsilanti, Mich. – the North American Free Trade Agreement is a total bust. He slaps the trade pact with a bruising tag: the "NAFTA shaft."

Like workers nationwide, Mr. Cruickshank has seen none of the 170,000 net new jobs promised two years ago by the Clinton administration when it won approval for NAFTA. Instead, he has watched

After two years of the trade accord, NAFTA still generates plenty of political heat – but little economic light so far.

* *

Quotes to remember: *"In America the credit machine is running full speed. Total outstanding nonfinancial debt has since the 1980's more than tripled from $3.9 trillion to $13.5 trillion. Credit is on a rampage. Bank credit growth in particular has more than doubled since a year ago."* -- Dr. Kurt Richebacher.

"There is no means of avoiding the final collapse of a boom brought about by credit expansion." -- Austrian economist Ludwig von Mises.

* *

Skirting the Constitution again: The Constitution is very clear about US borrowing. Article 1, Section 8 clearly states that only "Congress shall have the power . . . to borrow money on the credit of the United States." Evidently Treasury Secretary Robert Rubin doesn't read well, because first he borrowed $21.5 billion from the federal employees Thrift Savings Plan. Then he borrowed another $39.8 billion from the Civil Service Retirement and Disability Plan. He did this to bypass the US debt ceiling. The unbelievable irony of this is that the Clinton Administration cracked down on private employees who raid their own pension plans. Now the Republicans threaten to impeach Rubin for subverting the Constitution.

* *

The Colt-Steeler play-off game featured the most flagrant missed call by an official that I've seen in 40 years of watching pro football -- and it resulted in sending the **wrong team** to the Super Bowl. On the Steeler touchdown Kordell Stewart clearly ran out of bounds, then back in to catch the ball. No official saw it -- but TV did. That touchdown was obviously illegal, but it provided the winning points for the Steelers. If instant replay had been in use, the Colts would be going to the Super Bowl, not the Steelers. Bring back instant replay and make it a fair game.

* *

We're in the era of the "do-it-yourself" deal. There have never been this many mergers and spinoffs, but Wall Street's role in these mergers has been declining. By the end of 1995, 9,000 deals worth more than $470 billion were completed, which easily surpassed a record '94 total. But as the *NY Times* put it, "The majority sealed a deal with little more than a handshake and a call to their accountants to check the figures." Fact -- the fees paid for deals in '95 were barely one-sixth of the amount Wall Street pocketed in 1989.

* *

Overdone? In 1995 the *Wall Street Journal* mentioned Microsoft Corp. in 1,033 articles (an average of 2.8 articles a day). The *NY Times* included 868 Microsoft articles (2.4 a day), but had more articles bearing Bill Gates' name -- 169 vs. 149 by the *WSJ.*

* *

One of the best kept secrets of the US Treasury is that Bill Clinton's huge 1993 tax boost has produced only a third of the tax revenues that he had predicted it would. Clinton boasted that the big tax boost, which sneaked through Congress by a single vote, would bring in an extra $100 billion in taxes. But contrary to Clinton's "soak the rich" hopes, the Treasury ended bringing in two-thirds LESS of the tax revenue predicted. On top of that, the boosts depressed taxpayers' behavior so that their real incomes dropped by nearly $25 billion.

* *

Morgan Stanley's chief stock market strategist, Byron Wein, annually lists events which could occur but which few expect. Here's a sampling of Wein's latest thinking. Wein predicts that one of the following will occur in 1996: Clinton doesn't run; Dole doesn't run; Clinton loses to Dole; Dems regain control of the House. Another guess: A strong economy in the first quarter with GDP exceeding 3% as labor, food and industrial commodities become expensive; the Fed boosts rates and the long bonds' yield rises to 7%. The Dow advances to 5800, then drops to 4500 by the end of the year. And another -- Whitewater becomes an embarrassment to Clinton, and the Bosnian situation escalates, producing US casualties.

* *

How has the **$37** million salary cap worked for the National Football League? About as well as the Gramm-Rudman bill worked for the government's "budget balancers." According to the NFL Players Association, 26 of the 30 NFL teams EXCEEDED the salary cap. Worst offender, Dallas, which paid out salaries and bonuses of $62 million (that includes a whopping $40 million in signing bonuses). Carolina came in at $48 million, Washington and New England at $46 million. There seems to be no correlation between how much a team pays and its results. Only three of the 12 teams that paid the most money in salaries qualified for the playoffs. Seven of the 12 teams that qualified paid the least. Conclusion: money doesn't buy happiness or a great football team.

* *

Big-Mouth Statement of January (if not the year): "The team I played with last year is at home. And the team I played on this year is still here." Deion Sanders, after the Dallas wiped out Philly.

* *

One football team that will definitely stay put is the Green Bay Packers. Why? Green Bay is the only team controlled (owned) by the city's citizens. The Packers are a modern anomaly. When the team was struggling financially in 1950, the Packers sold shares ($25 a share) of stock to citizens of Green Bay and across Wisconsin, raising about $125,000 (which gives you an idea of what has happened to the dollar!). The move diluted the team's ownership, making it virtually impossible for anybody else to buy the club. No other city has this remarkable protection. The NFL now prohibits any type of public ownership; it also requires an owner's primary purpose to be running a team.

* *

I get the Bloomberg business channel (via satellite) plus the CNBC business channel plus Channel 22 (business) out of LA. So I ask myself, "Do we need another business channel?" We'll find out. Turner's CNN is coming out with CNN Financial News, which, I gather, will be another all-news channel. On top of that, Dow Jones has spent $200 million to acquire a New York UHF TV station that they will use as a flagship for a new financial network.

* *

In line with the current intense interest in all things financial, billionaires are now definitely "in." Books by or about billionaires include a new book by Bill Gates, two recent books about Warren Buffet, and a recent book by George Soros. As for multi-millionaires, they don't count any more. Of course, Donald

Trump's books have been out for a few years, but unfortunately, we don't know if Donald owns millions or owes millions. Maybe we should ask Marla -- or Ivana?

* *

More trouble out of California, this time from well-known Beverly Hills advisor S. Jay Goldinger. I don't know the whole story yet, but the losses are said to be near $100 million. And it's the same old story -- no risk management. In running speculative accounts it's essential to mark your prices to market daily if not hourly. You've got to KNOW where you are at all times. And if the losses start building up you've got to LIMIT those losses. Over and over again we hear about a money manager who bets the wrong side of the market -- his position builds up on the loss side, and the manager does nothing. His securities continue to slide and the manager continues to do nothing -- but he moves into what I call "the hope mode." He's hoping the market will reverse, and bail him out. Of course, the market doesn't oblige, the losses continue to pile up, and the advisor's hope turns to fear, then terror -- and finally, the disaster explodes -- it becomes public knowledge. Newspapers, lawyers, the SEC, politicians, class actions, all because there was no RISK MANAGEMENT.

* *

Privilege: 26 states now allow citizens to carry concealed weapons, and Texas has just joined the parade. The right to carry a concealed weapon, in my opinion, makes every person a potential "decoy." It also makes criminals think twice or thrice about attacking "defenseless" citizens. But in some states only the *powerful or privileged* can get a concealed weapons license. Who are these people? Howard Stern, Donald Trump, Arthur Sulzberger (CEO of the *NY Times*, whose newspaper is stridently anti-gun), Tom Selleck, two Rockefellers, William Buckley, California's Senator Dianne Feinstein. Says California Attorney Don. B. Kates, "These people think it's OK for them to carry a gun. It's telling the public -- your life is not important, but our lives are." Kates sued the City of LA on behalf of ordinary citizens who were refused permits to carry a concealed weapon. He and 58 ordinary citizens won the suit.

* *

One thing that has always aggravated me is a pen that leaks ink. And all pens leak. Here in California I almost never wear a suit. Therefore, I keep a pen in the back pocket of my slacks or jeans. And if the pen leaks, it's good-bye pants. But ah ha, finally, a leak-proof pen has appeared. It's the amazing Fisher Space Pen, which works on an entirely different principle than any other ball pen (it even has its own special thick "ink"). The pen writes under water, it writes at 20,000 feet, it writes through grease, and it will NOT leak. This is the pen that was carried by the astronauts to the moon; it was developed at a cost of $2 million by Paul Fisher. The pen is a little chrome beauty only 3 3/4" long when closed, which means that it fits perfectly into your back pocket. I think it costs around $17. I don't make a cent on a sale of this pen, but if you're looking for a real gem, try to find the Fisher Pen or write to Fisher Space Pen, 711 Yucca St., Boulder City, Nevada 89005. This pen should also make a great gift.

* *

The *Christian Science Monitor* has a name for today's economy. They call it "The Pink Slip Economy." Sounds right to me.

BOSTON - THURSDAY, JANUARY 4, 1996 75¢ ($1.00 CANADIAN)

What's Behind Pink-Slip Economy

As AT&T shows, layoffs are no longer just to cut costs but to fund new ventures

* *

Incidentally, the **Christian Science Monitor** continues to be one of the best written, most interesting, most original newspapers in the nation. The *Monitor* specializes in pieces that present difficult subjects in an understandable way. Personally, I wouldn't be without the *Monitor* [(800)456-2220]. Another newspaper that I like is **Investor's Business Daily.** This fine paper just gets better and better. I used to read it for its statistics (many of which you can't get anywhere else), but now I also read it for its reasoned, hard-hitting editorials and its many outstanding articles. (Example, on Jan. 8 "US Auto Industry Turns 100 Years Old.") Try it at [(800)831-2525]. Then there is my old favorite, the **International Herald Tribune.** This newspaper has it all -- great international news coverage, top editorials, fine national and international business articles, charts, many human interest stories. I wouldn't be without this paper, which is jointly owned by the *NY Times* and the *Washington Post.* [So you can see what kind of outstanding news coverage it provides call (800)882-2884.]

* *

Speaking of publications, John Train has come out with a fascinating little booklet entitled, "Famous Financial Fiascos." The booklet is published by Fraser Publishing, Box 494, Burlington, VT 05402. The book runs through everything from the John Law scandal to the great tulip mania to Ponzi to Ivan Kreuger, the Swedish Match King. The book is a testament to the gullibility, the greed, and yes, the incredible stupidity of the crowd. It's the perfect antidote to all those new books about today's neo-billionaires. At the end of his book, Train writes, "One wonders what technique will be used to solve today's debt crisis. Few countries can pay the interest let alone the principal on their indebtedness. Even America's national debt now equals the value of all the companies on the stock exchange, and its interest equals our budget deficit. So really, we are printing money to pay the interest like any Third World country. Eventually, something will snap."

Russell Comment: What's this? Could John Train be suggesting that US finances resemble some giant Ponzi scheme? Ponder this -- our Washington politicians aren't even hinting at paring down America's $5 trillion national debt. No, they're just talking about adding less to it (and forget balancing the budget by 2002; from what I gather from the debates and compromises so far, it's just not going to happen).

Speaking of Ponzi schemes, I would guess that the unfunded Social Security system would fit right in with the Ponzi definition, as suggested by this article from the Jan. 7 *Washington Times:*

"The end-game of any Ponzi scheme looks exactly like the Social Security system today, as new entrants' contributions to the system are used entirely to pay off the expectations of early system entrants."

earner, someone who joined the work force at an inflation-adjusted salary of about $12,500, begins showing a negative return

The system "worked" as long as there were more workers at the bottom of the pyramid than there were retirees at the

* *

Bad Timing: just when Hillary Clinton's new book comes out in which she extols old fashioned "values" (ugh, every time I hear either Clinton use the word "values" it turns my stomach), suddenly we find out that Hillary was lying about the amount of work she did for the failed Madison S&L. And amazing -- copies of Hillary's law firm long-lost billings mysteriously appear. Then we find out that Hillary was responsible for the ruthless mass firing of the White House travel people. Hillary's new book vs. the truth about the woman -- it's mother-beloved meets the Witch of Washington.

For the first time, I'm beginning to think that Whitewater, Hillary's lying, Foster's "suicide," all the Clinton stonewalling, will have serious implications for the election, with possibly a big surprise yet to come. On January 8 the strongly Democratic *NY Times* came out with a surprisingly tough editorial entitled, "Whitewater Returns." An excerpt: "We also know that every time Clinton confidantes like Susan Thomas and Margaret Williams insult Congress with totally unbelievable testimony, White House credibility takes another nick. It also seems that whenever the White Houses pronounces the story dead, something else pops up to challenge the First Couple's credibility. The latest example involves Hillary Clinton and the Travelgate affair. This has nothing to do with Whitewater but everything to do with honesty." On the same editorial page, William Safire, in a hard-hitting column entitled, "Blizzard of Lies," lists Hillary's long list of prevarications -- and in a statement that shocked the nation, Safire brands Hillary "a congenital liar." Do you think Hillary will sue? Yeah, right.

* *

* *

Retribution? Did you know that Hillary Clinton worked for eight months on the House Judiciary committee that investigated Richard Nixon?

* *

On the Dole: Many of the freshman House Republicans are furious at Dole for opting to compromise on the budget with Clinton (i.e., Dole wants to allow the government to resume full operations through January 12). But late news indicates that House Budget Committee Chairman Kasich also has second thoughts about closing down the government. He wants to take the more targeted strategy of denying funds to some of Clinton's prize programs. Kasich was bitter and compared Clinton to a misleading TV weatherman in "a green polyester suit." Clinton, the ultimate demagogue, has been endlessly repeating the lie that the Republicans want to "destroy" Medicare. The fact -- Medicare will be bankrupt by 2010 and the Republicans simply want to cut back on the *rate* of increased Medicare spending.

* *

Fed chairman Greenspan's term is up in March, and ordinarily Clinton would have let it be known that Greenspan was his choice for another term. But Clinton is letting Greenspan twist in the wind. Obvious reason -- he's keeping the pressure on Greenspan to lower rates.

Thousands Of Stores May Face Closure, One Analyst Predicts

NEW YORK (Bloomberg) — As many as 7,000 stores could be shuttered over the next year, predicts Kurt Barnard, a longtime retail industry consultant and president of Barnard's Retail Marketing Report.

The closings will be necessary because too many stores carry similar merchandise and too few shoppers are interested in buying, he said. That's likely to mean more Chapter 11 bankruptcy filings in 1996, especially in the apparel and discount-retailing sectors.

Further, American consumers are spending less because they are mired in an eye-popping $1 trillion of debt and are worried about the economy and their own job security.

Troubling Signs Raise Possibility of '96 Recession

By PATRICK LEE
TIMES STAFF WRITER

Like a thundercloud over a picnic, the possibility of a recession is looming over the nation's economic future for the first time since the early 1990s.

While Washington remains stalled by budget gridlock, a growing number of economists and business analysts are worried that the economic slowdown could deteriorate into a full-blown downturn this year or next.

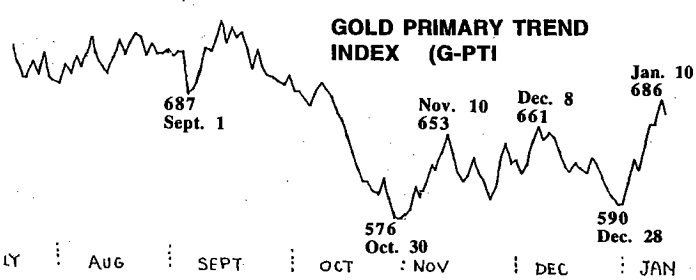
Such arguments are bolstered by the poor Christmas retail season, wary consumers with maxed-out

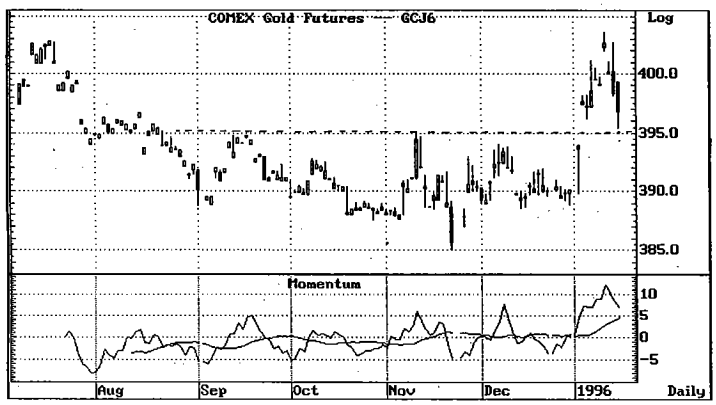
GOLD: Is it possible? Is gold actually going to "do something?" Well, the fact is that last week a few of the gold contracts actually closed above 400. But then on Friday (Jan. 12) history repeated as it has again and again. Thwack. Somebody, some one, a group, bearish traders, who knows -- "it" attacked gold and the futures slid under 400 again. Is there a "conspiracy" to keep gold down?

My suspicion has been that the central banks don't want a bull signal in gold -- they don't want gold above 400 (they seem to want it in the 385-397 range). Gold above 400 and pushing higher would be a signal to the world that the US is inflating. And the Fed does NOT want that. But I'm a market man, and I tell myself, "Look, IF gold is really in a primary bull market it's going to head higher -- regardless of what Mr. Greenspan or the Bundesbank or anyone else wants."

You can see that my Gold-Primary Trend Index (G-PTI) has rallied above both its November and December peaks. Furthermore, the December low of 590 was above the October low of 576, which is constructive. So technically gold is looking better than it has for many months, and gold-philes can only hope that this fragile beginning will evolve into a real bull trend.

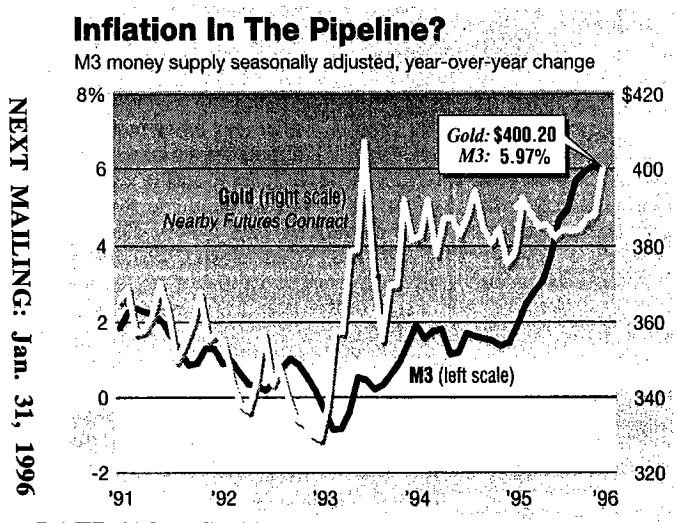
Now let's turn to the daily chart of gold. This is the April contract, and here we see gold "breaking out" above the 395 resistance level. It surged gold to 403, but by Friday's close (Jan. 12) gold had again dropped below 400.





Note that the momentum line (lower part of the chart) moved into over-bought territory above 10, and this may be the reason for the January 12 back-off. If gold is truly strong, the April contract will tend to hold *above* the breakout level at 395.

Fundamentals: Jim Turk (strategist for the Midas Fund) makes one of the best cases for higher gold. The chart below shows the year-over-year acceleration in the broadest measure of money -- M3. This suggests the possibility of inflation ahead (which certainly flies in the face of the prevailing consensus). Gold tends to move with the trend of inflation.



NEXT MAILING: Jan. 31, 1996

LATE NOTES: Almost every developed country is trying to avoid recession (assuming they are not already in recession) by lowering interest rates and pumping up their money supplies. Unemployment is running very high in Europe (9.9% in Germany, over 10% in France, even higher in Spain and Italy), and unemployment is therefore a major political pressure. So the problem is this -- how do you shrink the size of government and cut government debt in the face of slowing economies and rising unemployment rates?

This is the problem (puzzle) facing stock markets both here in the US and overseas. As to the question of which way the US market -- why guess? Let's just see if both Industrials and Transports can rally to new highs. My guess -- they won't be able to -- but that's only MY guess.